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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

Federal-State Joint Board on)
Universal Service)

CC Docket No. 96-45

**COMMENTS OF THE SOUTHERN NEW ENGLAND TELEPHONE COMPANY
ON UNIVERSAL SERVICE RECOMMENDED DECISION**

The Southern New England Telephone Company (SNET) respectfully submits these comments to respond to the Public Notice on the Federal-State Joint Board's Recommended Decision (Recommendation) on universal service issues.¹ SNET generally concurs with the USTA comments being filed today. SNET's comments focus on the proposed inclusion of intrastate revenues and services in federal universal service mechanisms.

I. INTRODUCTION

The Recommendation of the Federal-State Joint Board contains many proposals to encourage the continued widespread availability of affordable telecommunications services. The Federal-State Joint Board recommends universal service mechanisms for both the state and interstate jurisdictions. SNET urges the Federal Communications Commission (Commission) to only mandate federal universal service mechanisms for interstate services funded by interstate revenues and permit state regulatory commissions to develop state-specific universal service programs.

¹ Public Notice, DA 96-1891, Common Carrier Bureau Seeks Comment on Universal Service Recommended Decision, CC Docket No. 96-45, released November 18, 1996.

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The Telecommunications Act of 1996 (Act) did not eliminate the distinction between the federal and state jurisdictions. Funding for federal universal service support should come from services and associated revenues over which the Commission has authority. Furthermore, the Commission should establish a funding methodology that is economically sound and competitively neutral requiring all interstate telecommunications service providers to contribute.

The Recommendation contains numerous roles for the states, without giving the states the necessary control of the purse strings as the Recommendation calls for the Commission to distribute the support. Additionally, the proposals for support to educational institutions, rural healthcare providers, and low income consumers would require a significant federal role in the distribution of those funds. However, the states are best positioned to determine the universal service needs of these institutions in their respective states. In fact, many states have already initiated programs to bring the advantages of the information superhighway to educational and healthcare institutions.

II. THE COMMISSION SHOULD LIMIT THE FUNDING BASE TO INTERSTATE REVENUE.

The Act calls for interstate telecommunications carrier support of federal universal service mechanisms and intrastate telecommunications carrier support of mechanisms to preserve and advance universal service in each state.² The Federal-State Joint Board can appropriately recommend funding mechanisms for state programs, but should not suggest that the Commission mandate funding from intrastate services.

² Section 254(d) and Section 254(f).

The total revenue funding approach for the comprehensive programs outlined in the Recommendation would be appropriate if the distinction between federal and state revenues and costs were no longer necessary.³ However, the separation of costs and revenues between the federal and state jurisdictions is unchanged by the Act. The Commission should limit the funding base for federal universal service mechanisms to interstate revenue.

III. THE FUNDING METHODOLOGY FOR ANY SUBSIDY MECHANISM MUST BE COMPETITIVELY NEUTRAL AND ECONOMICALLY SOUND.

The Recommendation proposes funding the universal service mechanisms by assessing interstate telecommunications providers' revenues after subtracting payments made to other telecommunications service providers.⁴ This approach will discriminate against those service providers that utilize their own facilities to provide service, rather than resell another provider's service. Therefore, the proposed funding methodology could actually discourage the facilities-based competition that the Act seeks to promote. All competitors would not be treated equally under such a net of payments funding proposal which violates the standard of competitive neutrality the Federal-State Joint Board seeks to meet.

An economically sound support mechanism would not be funded by the services being subsidized. The services being supported by a subsidy mechanism should be excluded from the funding base. For example, the revenues from telecommunications

³ The Recommended Decision at para. 817 recommends that funding for schools and libraries and rural health care providers be funded by assessing both interstate and intrastate revenues of interstate telecommunications providers while making no recommendation as to the funding for the high cost and low income assistance programs.

⁴ *Ibid.*, para. 807.

services provided to educational institutions at a discount should be excluded from the funding base of the support mechanism. In this way funding for the subsidy will appropriately come from other revenues, rather than assessing the revenues provided at a discount.

IV. THE RECOMMENDATION SUGGESTS NUMEROUS ROLES FOR THE STATES WITHOUT ALLOWING THE STATES CONTROL OVER THE PURSE STRINGS OF THE SUBSIDY MECHANISMS.

The Recommendation suggests that the states monitor many factors such as subscribership to determine service affordability for the high cost support mechanism,⁵ but it does not allow the states the authority to determine the most needy recipients (whether service provider or education or healthcare institution) of federal universal service support. States are best situated to determine the unique needs of their differing populations and economic realities and design mechanisms that meet those needs. To do this effectively, states need to participate extensively in the implementation of programs and the design of funding mechanisms. The programs proposed in the Recommendation generally ignore differences in individual state economies, regulatory requirements, composition of services, etc. To the extent that state services are those requiring subsidy, each program can be more effectively designed and managed at the state level.

A. The Proposed State and Federal Roles Relating to a Federal High Cost Support Mechanism are Contrary to the Goal of Promoting Effective Competition.

The proposed high cost support mechanism requires establishing a single total service revenue benchmark to determine the amount of federal funding to be provided.

⁵ Ibid., para. 131-133.

This benchmark amount would then be compared to a cost of service proxy developed for a particular area to determine the amount of support to be provided.⁶ According to the Recommendation, the states are to have the primary role in determining whether the rates charged for service are affordable. A state could benefit from increased federal subsidy receipts by keeping universal service rates below the federally established benchmark rate. This approach would seem to create incentive for states to “game the process” rather than encourage the development of cost-based rates to promote effective competition.

The goal of providing high cost support ensures that high quality telephone service remains available and affordable. The Recommendation properly recognizes that the current federal high cost support mechanism needs to be gradually changed. Any sudden change to the present implicit subsidy structure can impede rather than encourage effective competition. The implicit subsidy structure in present rates developed over time should be slowly transitioned to more appropriate mechanisms to protect universal service levels. Ideally, the present federal structure would be transitioned to zero, permitting the states to establish appropriate subsidy mechanisms as dictated by their individual needs and level of competition.

In 1994, Connecticut passed legislation that opened all remaining telecommunications markets in the state to competition.⁷ At that time, Connecticut had the eighth highest telephone penetration rate in the nation. Today, after two years of implementing that legislation, the State now enjoys the highest telephone subscribership

⁶ Ibid., para. 309.

⁷ Connecticut Public Act 94-83, An Act Implementing the Recommendations of the Telecommunications Task Force.

level in the nation.⁸ The Connecticut experience shows that the effective introduction of competition can provide real and immediate benefits to consumers, while continuing to protect universal service.

B. The Mechanism for Educational Support Should Be Separate and Distinct From Other Mechanisms and is Best Implemented at the State Level.

It is critical that our country provide the educational community access to the information superhighway, yet the design of any such program must be carefully addressed. This can best be done at the state level. Certain states already have made initiatives, both at the school district level and state wide, to bring the information superhighway to their education communities. The Commission can further encourage these programs through the establishment of federal guidelines, rather than federal mandates. Additionally, states may want to establish a statewide network to connect all schools and libraries in that state. Arguably, this would be accomplished most efficiently by a state education commission, however, the Recommendation does not envision support for this kind of activity in the universal service proposal for education.⁹

Any educational support mechanism should be established separately and distinctly from other subsidy mechanisms. The proposed education subsidy program is new and its funding should not be commingled with the current implicit and explicit subsidies. The nature of the proposed education subsidy is quite different from current support

⁸ FCC Industry Analysis Division, Common Carrier Bureau, Telephone Subscribership in the United States (Data Through July 1996), released September, 1996. Table 3 shows that as of July 1994, Connecticut had a 96.8% subscribership and Table 2 shows that as of July 1996, Connecticut had a 98.4% subscribership.

⁹Para. 593 of the Recommended Decision states: "...we conclude that those not directly eligible for support should not be permitted to gain eligibility by participating in consortia with those who are eligible, even if the former seek to further educational objectives for students who attend eligible schools."

mechanisms as it is an entitlement program for eligible schools and libraries rather than support to telecommunications service providers or end users. Furthermore, any subsidy mechanism should be periodically reviewed to ensure that the goals of the program are met. Only by implementing the education program as a separate fund, can the effectiveness of the program be readily determined.

Additionally, any educational universal service program funded by telecommunications service providers should provide support only for regulated telecommunications services. The Recommendation proposes to include inside wire as a telecommunications “service” eligible for support.¹⁰ The inclusion of inside wire is not appropriate as it was deregulated by the Commission effective January 1, 1987.¹¹ The Federal-State Joint Board appropriately excluded the provision of Internet service from the telecommunications subsidy and inside wire should be excluded as well. While it may be desirable to establish a comprehensive mechanism to bring the full benefits of the information superhighway to the education community, the subsidy funded by telecommunications service providers should be limited to supporting regulated telecommunications services.

C. Federal Programs For Low Income Consumers Should Not Be Expanded. The States Should Be Encouraged To Address The Needs of These Consumers.

The Act specifically allows for both the federal Lifeline and Linkup programs to remain intact. At this time there is not an urgent need to change these programs in any way, however, it may be appropriate to fully migrate these programs to the states in the

¹⁰ Ibid., para. 477.

¹¹ Second Report and Order, CC Docket No. 79-105, 51 Fed.Reg. 8498(1986), Inside Wire Detariffing Order.

future. The Federal-State Joint Board properly recommended that subscribership levels be addressed at the state level. A corollary to this recommendation would allow for the end user support programs, which presumably encourage subscribership, to be addressed at the state level. The Commission may provide incentives to states to increase subscribership levels while allowing states the flexibility to develop their own programs to accomplish this.

D. The Support Mechanism For Rural Healthcare Providers Must Be Clearly Defined and Should Be Separate and Distinct From Other Support Mechanisms.

The universal service support mechanism for rural healthcare providers should clearly define the services to be supported, the healthcare providers eligible for support, the extent of that support, as well as the administration of the support program. The Recommendation acknowledged that some of these issues need further study before a final support mechanism for healthcare providers can be effectively instituted.

Similar to the proposed education subsidy, the proposed healthcare subsidy mechanism is more akin to an entitlement program than to the traditional universal service programs in place today. Therefore, just as it is appropriate for education program funding to be maintained separately and distinctly from funding for other subsidy mechanisms, it would be appropriate for the healthcare subsidy funding also to be maintained separately from other programs' funding.

V. SUMMARY

The task before the Commission is to determine which portions of the Recommendation are best mandated at the federal level and which are best left to the states. The Commission should establish appropriate funding mechanisms relating to

interstate services to meet the goals of the Act and allow the states the flexibility to meet these goals as they relate to intrastate services.

Respectfully submitted,

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December 19, 1996

CERTIFICATE OF SERVICE

I, Diane Ehlert, hereby certify that I have caused copies of the foregoing SNET Comments on the Recommended Decision on Universal Service, CC Docket No. 96-45, to be served this 19th day of December, 1996 by United States mail, first class postage prepaid, unless otherwise indicated, to the following:



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